

Special Olympics, Inc. and Affiliates

Combined Financial Report and
Supplemental Schedules
December 31, 2022

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Independent Auditor's Report

Board of Directors
Special Olympics, Inc.

Report on the Audit of the Financial Statements***Opinion***

We have audited the combined financial statements of Special Olympics, Inc. and Affiliates (SOI), which comprise the combined statements of financial position as of December 31, 2022 and 2021, the related combined statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the combined financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of SOI as of December 31, 2022 and 2021, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of SOI and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about SOI's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of SOI's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about SOI's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The combining information is presented for purposes of additional analysis rather than to present the financial position, changes in net assets and cash flows of the individual organizations and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The combining information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

RSM US LLP

Washington, D.C.
June 23, 2023

Special Olympics, Inc. and Affiliates

Combined Statements of Financial Position December 31, 2022 and 2021

	2022	2021
Assets		
Current assets:		
Cash and cash equivalents	\$ 55,522,961	\$ 51,411,978
Contributions receivable	9,763,940	7,183,903
Program and other receivables, net	13,409,428	12,173,678
Investments in liquidation	22,744,000	-
Prepaid expenses	3,215,272	1,982,543
Other assets	361,372	392,487
Total current assets	105,016,973	73,144,589
Noncurrent assets:		
Investments restricted in perpetuity	5,505,630	6,072,434
Other investments	1,751,131	2,624,235
Economic beneficial interest in Christmas Records Trust	30,526,872	62,681,615
Long-term contributions receivable, net	2,477,030	6,394,827
Operating right-of-use asset, net	7,001,072	-
Property and equipment, net	3,068,244	4,371,470
Other assets	879,714	968,332
Total noncurrent assets	51,209,693	83,112,913
Total assets	\$ 156,226,666	\$ 156,257,502
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 12,891,987	\$ 8,409,941
Lease liability, net	314,061	216,112
Grants and awards payable to affiliates	140,000	6,682,101
Deferred revenue and refundable advances	8,021,998	7,431,060
Total current liabilities	21,368,046	22,739,214
Non-current liabilities:		
Lease liability, net	6,743,961	-
Total non-current liabilities	6,743,961	-
Total liabilities	28,112,007	22,739,214
Net assets:		
Without donor restrictions:		
Undesignated	26,102,521	24,680,533
Designated	56,228,041	66,202,652
Total net assets without donor restrictions	82,330,562	90,883,185
With donor restrictions	45,784,097	42,635,103
Total net assets	128,114,659	133,518,288
Total liabilities and net assets	\$ 156,226,666	\$ 156,257,502

See notes to combined financial statements.

Special Olympics, Inc. and Affiliates

Combined Statement of Activities Year Ended December 31, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Direct mail contributions	\$ 53,903,803	\$ -	\$ 53,903,803
Individual and corporate contributions and sponsorships	10,263,919	30,835,971	41,099,890
Contributed nonfinancial assets	7,943,661	-	7,943,661
Federal grants	39,195,047	-	39,195,047
Accreditation fees	4,251,797	-	4,251,797
Royalty income	1,355,522	-	1,355,522
Depreciation in Christmas Records Trust assets, net (Note 7)	(8,136,659)	-	(8,136,659)
Other investment loss, net (Note 7)	(1,294,767)	-	(1,294,767)
Other income	882,186	-	882,186
Total revenues, gains and other support	108,364,509	30,835,971	139,200,480
Net assets released from restrictions (Note 9):			
Satisfaction of program restrictions	19,054,253	(19,054,253)	-
Expiration of time restrictions	8,632,724	(8,632,724)	-
Total revenues, gains and other support and net assets released from restrictions	136,051,486	3,148,994	139,200,480
Expenses:			
Program services:			
Program assistance	71,935,249	-	71,935,249
Public education and communications	42,824,378	-	42,824,378
Sports training and competitions	8,362,478	-	8,362,478
Total program services:	123,122,105	-	123,122,105
Supporting services:			
Fundraising	16,090,906	-	16,090,906
Management and general	5,391,098	-	5,391,098
Total supporting services:	21,482,004	-	21,482,004
Total expenses	144,604,109	-	144,604,109
Changes in net assets	(8,552,623)	3,148,994	(5,403,629)
Net assets:			
Beginning	90,883,185	42,635,103	133,518,288
Ending	\$ 82,330,562	\$ 45,784,097	\$ 128,114,659

See notes to combined financial statements.

Special Olympics, Inc. and Affiliates

Combined Statement of Activities Year Ended December 31, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support:			
Direct mail contributions	\$ 56,091,518	\$ -	\$ 56,091,518
Individual and corporate contributions and sponsorships	10,034,208	27,765,328	37,799,536
Contributed nonfinancial assets	6,256,764	-	6,256,764
Federal grants	32,246,398	-	32,246,398
Accreditation fees	3,266,273	-	3,266,273
Royalty income	1,230,645	-	1,230,645
Appreciation in Christmas Records Trust assets, net (Note 7)	8,517,223	-	8,517,223
Other investment income, net (Note 7)	(5,151)	219,685	214,534
Other income	3,920,962	-	3,920,962
Total revenues, gains and other support	121,558,840	27,985,013	149,543,853
Net assets released from restrictions (Note 9):			
Satisfaction of program restrictions	14,139,454	(14,139,454)	-
Expiration of time restrictions	11,019,861	(11,019,861)	-
Total revenues, gains and other support and net assets released from restrictions	146,718,155	2,825,698	149,543,853
Expenses:			
Program services:			
Program assistance	66,135,393	-	66,135,393
Public education and communications	36,388,452	-	36,388,452
Sports training and competitions	5,616,483	-	5,616,483
Total program services:	108,140,328	-	108,140,328
Supporting services:			
Fundraising	14,537,702	-	14,537,702
Management and general	4,305,580	-	4,305,580
Total supporting services:	18,843,282	-	18,843,282
Total expenses	126,983,610	-	126,983,610
Changes in net assets	19,734,545	2,825,698	22,560,243
Net assets:			
Beginning	71,148,640	39,809,405	110,958,045
Ending	<u>\$ 90,883,185</u>	<u>\$ 42,635,103</u>	<u>\$ 133,518,288</u>

See notes to combined financial statements.

Special Olympics, Inc. and Affiliates

Combined Statement of Functional Expenses Year Ended December 31, 2022

	Program Services				Supporting Services			
	Program Assistance	Public Education and Communications	Sports Training and Competitions	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Salaries	\$ 16,339,707	\$ 3,936,412	\$ 2,277,514	\$ 22,553,633	\$ 2,505,984	\$ 2,476,168	\$ 4,982,152	\$ 27,535,785
Benefits	2,190,815	887,650	431,305	3,509,770	507,963	718,123	1,226,086	4,735,856
Total salaries and benefits	18,530,522	4,824,062	2,708,819	26,063,403	3,013,947	3,194,291	6,208,238	32,271,641
Consulting and other	6,689,739	6,855,706	1,661,894	15,207,339	3,316,558	752,316	4,068,874	19,276,213
Postage and shipping	191,436	5,156,016	17,879	5,365,331	4,497,923	9,217	4,507,140	9,872,471
Printing	73,873	4,616,524	2,060	4,692,457	4,016,553	627	4,017,180	8,709,637
Supplies	5,705,629	120,074	804,114	6,629,817	38,829	5,643	44,472	6,674,289
Data processing	2,184,501	693,058	117,792	2,995,351	637,673	466,238	1,103,911	4,099,262
Travel, meetings and conferences	2,923,365	1,068,489	646,482	4,638,336	111,260	145,157	256,417	4,894,753
Miscellaneous	711,611	310,447	26,869	1,048,927	279,690	388,251	667,941	1,716,868
Rent (Note 10)	1,195,993	362,733	125,475	1,684,201	107,159	295,506	402,665	2,086,866
Depreciation and amortization	1,529,030	-	-	1,529,030	-	101,183	101,183	1,630,213
Communication	242,891	19,394	42,557	304,842	46,537	15,048	61,585	366,427
Professional development	181,372	152,088	6,372	339,832	22,250	17,621	39,871	379,703
Equipment rent and repair	122,840	30,993	3,689	157,522	2,527	-	2,527	160,049
	21,752,280	19,385,522	3,455,183	44,592,985	13,076,959	2,196,807	15,273,766	59,866,751
Awards and grants	31,652,447	18,614,794	2,198,476	52,465,717	-	-	-	52,465,717
	\$ 71,935,249	\$ 42,824,378	\$ 8,362,478	\$ 123,122,105	\$ 16,090,906	\$ 5,391,098	\$ 21,482,004	\$ 144,604,109

See notes to combined financial statements.

Special Olympics, Inc. and Affiliates

Combined Statement of Functional Expenses Year Ended December 31, 2021

	Program Services				Supporting Services			
	Program Assistance	Public Education and Communications	Sports Training and Competitions	Total Program Services	Fundraising	Management and General	Total Supporting Services	Total
Salaries	\$ 14,419,872	\$ 3,085,885	\$ 2,070,438	\$ 19,576,195	\$ 2,388,248	\$ 2,044,276	\$ 4,432,524	\$ 24,008,719
Benefits	1,983,808	703,839	387,048	3,074,695	512,793	533,337	1,046,130	4,120,825
Total salaries and benefits	16,403,680	3,789,724	2,457,486	22,650,890	2,901,041	2,577,613	5,478,654	28,129,544
Consulting and other	5,521,190	6,827,577	408,251	12,757,018	3,341,606	371,728	3,713,334	16,470,352
Postage and shipping	87,911	5,079,991	6,634	5,174,536	4,192,043	7,264	4,199,307	9,373,843
Printing	40,465	3,582,272	166	3,622,903	2,880,873	197	2,881,070	6,503,973
Supplies	5,752,375	57,358	68,014	5,877,747	22,244	1,231	23,475	5,901,222
Data processing	1,797,479	827,676	58,102	2,683,257	583,538	426,777	1,010,315	3,693,572
Travel, meetings and conferences	147,105	168,990	27,533	343,628	12,294	33,314	45,608	389,236
Miscellaneous	331,036	301,431	11,508	643,975	382,297	417,619	799,916	1,443,891
Rent (Note 10)	1,131,520	320,634	129,385	1,581,539	112,220	265,958	378,178	1,959,717
Depreciation and amortization	1,566,981	1,358	482	1,568,821	475	175,306	175,781	1,744,602
Communication	222,129	35,054	10,731	267,914	55,395	10,433	65,828	333,742
Professional development	98,729	107,848	8,242	214,819	51,406	12,760	64,166	278,985
Equipment rent and repair	29,200	6,487	2,303	37,990	2,270	5,380	7,650	45,640
	16,726,120	17,316,676	731,351	34,774,147	11,636,661	1,727,967	13,364,628	48,138,775
Awards and grants	33,005,593	15,282,052	2,427,646	50,715,291	-	-	-	50,715,291
	<u>\$ 66,135,393</u>	<u>\$ 36,388,452</u>	<u>\$ 5,616,483</u>	<u>\$ 108,140,328</u>	<u>\$ 14,537,702</u>	<u>\$ 4,305,580</u>	<u>\$ 18,843,282</u>	<u>\$ 126,983,610</u>

See notes to combined financial statements.

Special Olympics, Inc. and Affiliates

Combined Statements of Cash Flows Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Changes in net assets	\$ (5,403,629)	\$ 22,560,243
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation and amortization expense	1,630,213	1,744,602
Bad debt expense	142,077	93,689
Discount on long term contributions receivable	-	180,000
Net unrealized and realized gain (loss) on investments and economic beneficial interest in Christmas Records Trust	9,594,297	(9,053,015)
Contributions received for long-term purposes	(2,000,000)	(2,234,272)
Changes in assets and liabilities:		
(Increase) decrease:		
Contributions receivable	1,337,760	3,545,505
Program and other receivables	(1,377,827)	(3,822,863)
Prepaid expenses	(1,232,729)	525,915
Operating right-of-use asset	(7,001,072)	-
Other assets	119,733	223,973
Increase (decrease):		
Accounts payable and accrued liabilities	4,482,046	1,095,640
Grants and awards payable to affiliates	(6,542,101)	1,661,375
Deferred revenue and refundable advances	590,938	(656,422)
Lease liability	6,871,198	192,888
Net cash provided by operating activities	1,210,904	16,057,258
Cash flows from investing activities:		
Purchases of property and equipment	(326,987)	(413,940)
Purchases of investments and economic beneficial interest in Christmas Records Trust	207,203	(9,178,576)
Proceeds from sale of investments and economic beneficial interest in Christmas Records Trust	1,049,151	9,430,316
Net cash provided by (used in) investing activities	929,367	(162,200)
Cash flows from financing activities:		
Contributions received for long-term purposes	2,000,000	2,234,272
Principal payments of capital lease	(29,288)	-
Net cash provided by financing activities	1,970,712	2,234,272
Net increase in cash and cash equivalents	4,110,983	18,129,330
Cash and cash equivalents:		
Beginning	51,411,978	33,282,648
Ending	\$ 55,522,961	\$ 51,411,978

See notes to combined financial statements.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 1. Nature of Activities

Special Olympics, Inc. (SOI or Special Olympics), a District of Columbia nonprofit corporation, was incorporated in 1968. The mission of Special Olympics is to provide year-round sports training and athletic competition in a variety of Olympic-type sports for children and adults with intellectual disabilities, giving them continuing opportunities to develop physical fitness, demonstrate courage, experience joy and participate in the sharing of gifts, skills and friendship with their families and other Special Olympics athletes and the community. SOI accomplishes its mission through its approximately 207 independent accredited programs worldwide, plus independent games organizing committees responsible for organizing, financing and conducting world and regional games. SOI does not have a controlling financial interest in its accredited programs or the games organizing committees, and the accompanying combined financial statements do not include the accounts of these accredited programs and games organizing committees (see Note 5).

On December 25, 1997, the Christmas Records Trust (the Trust) was established by SOI as a grantor trust to support the charitable mission of SOI and the Special Olympics movement through the royalty income and accumulated principal earned from the A Very Special Christmas albums. The Trust has three trustees, one of whom is an SOI board member. As of December 31, 2022 and 2021, the Trust's assets had a fair market value of \$53,270,872 (\$22,744,000 in investments in liquidation) and \$62,681,615, respectively (see Note 7).

Note 2. Summary of Significant Accounting Policies

Principles of combination: The accompanying combined financial statements include the accounts of Special Olympics and its affiliated organizations, SO Europe Eurasia Foundation (the Foundation), Special Olympics Asia Pacific, Ltd. (SOAP Ltd), Special Olympics Entertainment Corporation (SOEC) and Special Olympics Community Services, Ltd. (SOCS). The Foundation was formed on June 23, 2009, as a tax-exempt organization in the country of Ireland. SOAP Ltd and SOCS are organizations incorporated under the Singapore Companies Act, Cap. 50 as companies limited by guarantee with no paid-up share capital and domiciled in Singapore. The principal activities of these three entities are to benefit their local communities through the provision of financial assistance to support the Special Olympics mission. SOEC was formed February 15, 2019, as a tax-exempt organization incorporated in the state of Delaware for the purpose of managing the production of a film featuring Special Olympics athletes. SOI controls the Board of Directors of all four organizations and exerts significant influence over their activities. All intercompany accounts and transactions have been eliminated in combination.

Basis of presentation: The accompanying combined financial statement presentation follows the recommendations under the Not-for-Profit Entities Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). Under this topic, SOI is required to report information regarding its financial position and activities within two classes of net assets:

Net assets without donor restrictions: Net assets without donor restrictions may be expended for any purpose in performing the primary objectives of SOI. Certain amounts have been designated by SOI for specific purposes. All contributions are considered to be available for unrestricted undesignated use, unless specifically designated by the board of directors or given with donor restrictions or internally designated by management. Unrestricted designated contributions represent contributions without donor restrictions that have been designated for a specified purpose by the board of directors (see Note 8).

Net assets with donor restrictions: Net assets with donor restrictions are contributions with donor-imposed time and/or program restrictions or permanent restrictions. The time and purpose restrictions require that resources be used for specific purposes and/or in a later period or after a specified date.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Net assets with donor restrictions become unrestricted when the time restrictions expire or when the funds are used for their restricted purposes, at which time they are reported in the combined statements of activities as net assets released from restrictions (see Note 9). Net assets with donor restrictions that are permanent in nature, represent endowments to be held in perpetuity (see Note 9).

Cash and cash equivalents: For combined financial statement purposes, SOI considers cash and cash equivalents to include cash in financial institutions and liquid investments with original maturities of three months or less.

Investments: Investments consist of readily marketable securities which are recorded at fair value, with any unrealized gain (loss) included in other investment income (loss) in the combined statements of activities. Equity securities traded on a national securities exchange are valued at the closing price, fixed-income securities are valued at the last bid price and the net asset values (NAV) of mutual funds are based on valuations computed by the National Association of Securities Dealers (see Note 7).

Beneficial interest in Trust: SOI records its interest in the Trust at fair value, with any unrealized gain (loss) included in net appreciation (depreciation) in Trust assets in the combined statements of activities.

Concentration of risk: Cash and cash equivalents that potentially subject SOI to concentrations of credit risk consist principally of bank accounts and short-term investments. Bank accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Investment accounts are insured by the Securities Investor Protection Corporation (SIPC). Investment balances are insured up to \$500,000, with a limit of \$250,000 for cash. At December 31, 2022 and 2021, SOI had cash and cash equivalents of \$48,118,418 and \$45,647,605, respectively, in excess of FDIC and SIPC insured limits. Additionally, SOI has cash and cash equivalents in the amounts of \$5,653,551 and \$4,555,936, respectively, in foreign bank accounts, some of which may be subject to withdrawal restrictions.

SOI invests in a professionally managed portfolio that primarily contains mutual funds, equity securities and fixed income securities. Such investments are exposed to various risks, such as market and credit. Due to the level of risk associated with such investments and the level of uncertainty related to changes in the value of such investments, it is at least reasonably possible that changes in risk in the near term would materially affect investment balances and the amounts reported in the combined financial statements.

Receivables: Receivables are carried at original invoice amounts, less an estimate made for doubtful receivables, based on a review of all outstanding amounts on a monthly basis. Management determines the allowance for doubtful accounts by identifying troubled accounts and using historical experience applied to an aging of accounts. Receivables are written off when deemed uncollectible. Recoveries of receivables previously written off are recorded when received. The provision for an allowance for doubtful accounts as of December 31, 2022 and 2021, was \$194,327 and \$180,249, respectively.

Contributions receivable: Contributions receivable are unconditional promises to give that are recognized as contributions when the promise is received. Contributions receivable that are expected to be collected in less than one year are reported at net realizable value. Contributions receivable that are expected to be collected in more than one year are recorded at fair value at the date of promise. That fair value is computed using present value technique applied to anticipated cash flows. Amortization of the resulting discount is recognized as additional contribution revenue. The allowance for uncollectible contributions receivable is determined based on management's evaluation of the collectability of individual promises. Management has determined that contributions receivable are fully collectible and there was no allowance for doubtful contributions receivable at December 31, 2022 or 2021.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Conditional promises to give are recognized when the conditions upon which they depend are substantially met. A contribution is considered to be conditional if an agreement includes a barrier that must be overcome and either a right of return of assets or a right of release of a promise to transfer assets exists. Indicators of a barrier include measurable performance-related barrier or other measurable items, stipulations that limit discretion by the recipient on the conduct of an activity and stipulations that are related to the purpose of the agreement.

Property and equipment: Property and equipment are stated at cost if acquired by SOI, or at fair value if donated. SOI capitalizes all property and equipment purchased with a cost of \$5,000 or more. Useful lives range from three to five years. The cost of property and equipment, less applicable residual values, is depreciated using the straight-line method. Depreciation begins when the specific asset is ready for normal use. Amortization of leasehold improvements is computed on a straight-line basis over the lesser of the term of the related lease or the estimated useful life of the assets.

Individual and corporate contributions and sponsorships: SOI records promises to give as contributions receivable when there is an unconditional promise to give, supported by evidence of the amount, timing and nature of the contributions. SOI reports gifts of cash and other assets as restricted support if they are received with donor-imposed time or purpose restrictions. When a donor restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying combined statements of activities as net assets released from restrictions.

SOI reports contributions of nonfinancial assets as contribution revenue and program expense (program assistance, public education and communications and sports training and competitions) upon receipt. Accounting principles generally accepted in the United States of America (GAAP) allow recognition of contributed services only if: (a) the services create or enhance nonfinancial assets or (b) the services would have been purchased if not provided by contribution, require specialized skills and are provided by individuals possessing those skills. SOI reports contributions of nonfinancial assets as restricted support if they are received with donor-imposed time or purpose restrictions. When a donor restriction expires or is satisfied, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the accompanying combined statements of activities as net assets released from restrictions.

Contributed nonfinancial assets included in the combined statements of activities for the years ended December 31, 2022 and 2021, are comprised of the following:

	2022	2021
Medical supplies	\$ 4,546,932	\$ 4,390,633
Marketing, digital and content creation	1,258,215	703,685
Software and licensing	633,484	647,058
Volunteer clinicians	732,992	186,639
Global clinical advisors	108,627	154,176
Training and consulting	145,680	135,212
Food products	347,068	31,010
Other	170,663	8,351
Total contributed nonfinancial assets	<u>\$ 7,943,661</u>	<u>\$ 6,256,764</u>

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Fair value techniques: Global clinical advisors are valued based on contracted rates, and volunteer clinicians are valued based on market rates of service providers. The value of donated goods is estimated based on the wholesale value that would be received selling similar items in the local market. The value of donated services is based on current rates of similar services.

Donor restrictions and use: None of the contributed nonfinancial assets are restricted in use. SOI does not sell contributed goods and services. All contributed nonfinancial assets are used in programmatic activities. Marketing, digital and content creation services are also used in fundraising activities, and software and licensing and training and consulting services are also used in management and general activities.

SOI reports gifts of land, buildings and equipment as net assets without donor restrictions, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations of how long those long-lived assets must be maintained, SOI reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Federal and nonfederal grants: Revenues from federal and nonfederal grants are recognized when the related expenses allowable under the grant are incurred, since such grants can be terminated by the grantor or refunding can be required under certain circumstances coupled with other performance and/or control barriers. For this reason, the SOI's federal and nonfederal grants are considered conditional, and so referred to as conditional grants.

Unconditional contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. Conditional contributions are those contributions that contain donor imposed rights of refund/return and barriers. Conditional contributions are recognized into revenue when conditions are satisfied and follow the above policies for unconditional contributions. Conditional contributions are recognized to net assets without donor restrictions when any restrictions had been satisfied at the time of recognition. Conditional contributions received in advance of satisfying conditions are recorded to deferred revenue.

Accreditation fees: Accredited programs (see Note 5) are assessed a fixed percentage of either their operating expenses (in the case of U.S. programs) or their adjusted gross revenues (for non-U.S. programs) as accreditation fees. These fees are recognized in the year to which the fees relate and are reported as accreditation fees in the accompanying combined statements of activities. These revenues are considered to be recognized over time.

Royalty income: SOI enters into licensing and sponsorship agreements with sponsors, whereby it grants the sponsor use of its name, logos and other trademarks. Where these agreements provide for a guaranteed minimum annual royalty over the term of the agreement, SOI recognizes these revenues over time as earned. Cash receipts in excess of revenue recognized are deferred to future periods; revenues in excess of cash receipts are recorded as receivables. Where these agreements do not provide for a guaranteed minimum royalty, income is recognized when received at a point in time.

Functional allocation of expenses: The costs of providing the various SOI programs and other activities have been summarized on a functional basis in the accompanying combined statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services based on reasonable methodologies such as headcount for occupancy expenses and level of effort for salaries and benefits and various other costs.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Leases: In February 2016, the FASB issued ASC Topic 842, Leases, to increase transparency and comparability among organizations related to their leasing arrangements. The update requires lessees to recognize most leases on their combined statement of financial position as a right-of-use (ROU) asset representing the right to use an underlying asset and a lease liability representing the obligation to make lease payments over the lease term, measured on a discounted basis. Topic 842 also requires additional disclosure of key quantitative and qualitative information for leasing arrangements. Similar to the previous lease guidance, the update retains a distinction between finance leases (similar to capital leases in Topic 840, Leases) and operating leases, with classification affecting the pattern of expense recognition in the combined statement of activities. SOI adopted Topic 842 on January 1, 2022, using the optional transition method to the modified retrospective approach, which eliminates the requirement to restate the prior-period combined financial statements. Under this transition provision, SOI has applied Topic 842 to reporting periods beginning on January 1, 2022, while prior periods continue to be reported and disclosed in accordance with SOI's historical accounting treatment under ASC Topic 840, Leases.

SOI elected the package of practical expedients under the transition guidance within Topic 842, in which SOI does not reassess: (1) the historical lease classification, (2) whether any existing contracts at transition are or contain leases or (3) the initial direct costs for any existing leases. SOI has not elected to adopt the hindsight practical expedient, and therefore will measure the ROU asset and lease liability using the remaining portion of the lease term upon adoption of ASC 842 on January 1, 2022.

SOI determines if an arrangement is or contains a lease at inception, which is the date on which the terms of the contract are agreed to, and the agreement creates enforceable rights and obligations. A contract is or contains a lease when: (i) explicitly or implicitly identified assets have been deployed in the contract and (ii) SOI obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. SOI also considers whether its service arrangements include the right to control the use of an asset.

SOI made an accounting policy election available under Topic 842 not to recognize ROU assets and lease liabilities for leases with a term of 12 months or less. For all other leases, ROU assets and lease liabilities are measured based on the present value of future lease payments over the lease term at the commencement date of the lease (or January 1, 2022, for existing leases upon the adoption of Topic 842). The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives. To determine the present value of lease payments, SOI made an accounting policy election available to non-public companies to utilize a risk-free borrowing rate, which is aligned with the lease term at the lease commencement date (or remaining term for leases existing upon the adoption of Topic 842).

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of an index and other periodic market-rate adjustments to base rent are recorded in variable lease expense in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probable, they will be incurred.

SOI has made an accounting policy election to account for lease and nonlease components in its contracts as a single lease component for its real estate and equipment asset classes. The nonlease components generally represent additional services transferred to SOI, such as common area maintenance for real estate, which are variable in nature and recorded in variable lease expense in the period incurred.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 2. Summary of Significant Accounting Policies (Continued)

Adoption of Topic 842 resulted in the recording of additional ROU assets and lease liabilities related to SOI's operating leases of approximately \$8,866,335 and \$8,972,813, respectively, at January 1, 2022. The adoption of the new lease standard did not materially impact consolidated net earnings or consolidated cash flows and did not result in a cumulative-effect adjustment to the opening balance of retained earnings.

Grants and awards: SOI provides unconditional grants to various accredited programs for assistance in achieving SOI's mission. The full amount of grants is expensed and accrued as grants payable upon authorization of payment of the grant by management.

Use of estimates: The preparation of combined financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Tax status: SOI has received a favorable determination letter designating it as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as a publicly supported organization under Sections 509(a)(1) and 170(b)(1)(A)(vi). The Trust is a grantor trust that is a not-for-profit organization and is qualified under the exemption of SOI as the Trust's sponsor organization. SOEC has received a favorable determination letter designating it as exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and has been designated as a Type 1 supporting organization under Sections 509(a)(3). The Foundation is exempt from income taxes under the laws of the country of Ireland. SOCS is subject to income tax under the laws of the country of Singapore but did not incur any tax in 2022 and 2021, due to carried-forward losses from operations.

GAAP requires management to evaluate tax positions taken by SOI and recognize a tax liability (or asset) if SOI has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed the tax positions taken by SOI and has concluded that as of December 31, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the combined financial statements.

Adopting of recent accounting pronouncements: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the statement of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the statement of activities. During November 2019, the FASB issued ASU 2019-10, *Leases (Topic 842) Effective Dates*, which delayed the effective date of ASU 2016-02 by one year. In June 2020, the FASB issued ASU 2020-05, *Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842): Effective Dates for Certain Entities*, further delaying the effective date an additional year, making it effective for annual reporting periods beginning after December 15, 2021.

Reclassification: Certain items in the 2021 information have been reclassified to conform with the current year presentation. These reclassifications had no effect on previously reported change in net assets or net assets.

Subsequent events: SOI has evaluated subsequent events through June 23 2023, the date on which the combined financial statements were available to be issued

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 3. Availability and Liquidity of Financial Assets

The following represents SOI's financial assets at December 31, 2022 and 2021:

	2022	2021
Financial assets at year-end:		
Cash and cash equivalents	\$ 55,522,961	\$ 51,411,978
Contributions receivable, net	12,240,970	13,578,730
Program and other receivables, net	13,409,428	12,173,678
Investments in liquidation	22,744,000	-
Investments restricted in perpetuity	5,505,630	6,072,434
Other investments	1,751,131	2,624,235
Economic beneficial interest in Trust	30,526,872	62,681,615
Total financial assets	141,700,992	148,542,670
Less amounts not available to be used within one year:		
Board-designated net assets	(56,228,041)	(66,202,652)
Net assets with donor restrictions	(45,784,097)	(42,635,103)
Financial assets not available to be used within one year	(102,012,138)	(108,837,755)
Financial assets available to meet general expenditures within one year	\$ 39,688,854	\$ 39,704,915

SOI receives a significant amount of contributions with donor-imposed time or purpose restrictions, as well as an increasing amount of restricted gifts to the SOI Endowment Fund that will exist in perpetuity. Income from the Endowment may be used for restricted or unrestricted purposes per each donor's guidelines. In addition, SOI receives substantial contributions without donor restrictions. Accreditation fees collected from affiliated programs, investment income, earnings appropriated from the Endowment and grant distributions from the Trust, contributions without donor restrictions, and contributions with donor restrictions for use in current activities and programs, are considered to be available to meet cash needs for general expenditures. General expenditures include assistance to global Special Olympics Programs (Programs), sports training and competitions, public education and communications, administrative and fundraising expenses. Annual operations are defined as activities occurring during, and included in the budget for, a fiscal year.

SOI seeks to operate within a prudent range of financial soundness and stability, maintaining a sufficient level of asset liquidity, and monitoring and maintaining reserves to provide reasonable assurance that long term commitments and obligations related to donor restricted funds and SOI's Endowment Fund will continue to be met. SOI regularly forecasts and monitors cash flow and liquidity to ensure that liquid resources are available to meet its commitments. To fund working capital needs, SOI has one line of credit arrangement as described in Note 13.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 4. Contributions Receivable

Contributions receivable at December 31, 2022 and 2021, consist of unconditional promises to give as follows:

	2022	2021
Due in less than one year	\$ 9,763,940	\$ 7,183,903
One to five years	2,627,064	6,424,904
Less discount to present value	(150,034)	(30,077)
Receivable noncurrent, net	2,477,030	6,394,827
Total contributions receivable, net	\$ 12,240,970	\$ 13,578,730

In addition, SOI has conditional promises to give of approximately \$121.2 million, \$46.5 million of which was added in 2022. Future payments are contingent upon SOI meeting certain milestones documented in the donor agreements. During the years ended December 31, 2022 and 2021, SOI met certain conditions and recognized approximately \$44.5 million and \$47.7 million, respectively. At December 31, 2022 and 2021, approximately \$74.3 million and \$84.2 million, respectively, in conditional promises to give had not been recorded in the combined financial statements. At December 31, 2022 and 2021, three donors accounted for 77% and 75%, respectively, of the outstanding conditional promises to give.

Note 5. Affiliated Organizations and Related Party Transactions

Accredited programs and games organizing committees: SOI biennially accredits organizations as Programs at state and national levels for the purpose of conducting Special Olympics activities in their respective territorial jurisdictions. SOI accredits a Program if it meets specific organizational, programmatic and legal requirements. Accredited Programs are authorized to use the Special Olympics name and logo, raise funds in the name of Special Olympics, receive grant support and participate in conferences and international sporting events sanctioned by SOI. Currently, there are accredited Programs in 50 U.S. states, the District of Columbia, Puerto Rico and in approximately 157 countries outside the United States. SOI contracts with local games organizing committees to conduct various international and regional Special Olympics games.

During 2022 and 2021, SOI made awards and grants of \$50,660,725 and \$47,614,167, respectively, to accredited Programs, which are allocated to functional expenses in the accompanying combined statements of activities.

Program and other receivables: Amounts due from related parties and accredited programs have been included in program and other receivables at December 31, 2022 and 2021, as follows:

	2022	2021
Accounts receivable from SOI regional operations	\$ 36,014	\$ 36,014
Program accreditation fees	83,716	115,380
Grants receivable	8,273,676	7,473,168
Corporate and other receivables	5,210,349	4,729,365
	13,603,755	12,353,927
Allowance for doubtful accounts	(194,327)	(180,249)
Program and other receivables, net	\$ 13,409,428	\$ 12,173,678

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 6. Property and Equipment

Property and equipment at December 31, 2022 and 2021, consist of the following:

	2022	2021
Furnishings	\$ 825,683	\$ 825,683
Equipment and software	12,935,927	12,816,044
Leasehold improvements	417,654	376,268
Software development in progress	109,910	214,256
Total property and equipment	14,289,174	14,232,251
Less accumulated depreciation	(11,220,930)	(9,860,781)
Total property and equipment, net	\$ 3,068,244	\$ 4,371,470

Depreciation and amortization expense for the years ended December 31, 2022 and 2021, was \$1,630,213 and \$1,744,602, respectively.

Note 7. Investments and Fair Value Measurements

Fair value measurement: Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. SOI applies fair value measurements to certain assets, including SOI's investments and its economic beneficial interest in Trust.

SOI maximizes the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value, which enables a reader of the combined financial statements to assess the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values. Assets and liabilities carried at fair value are classified and disclosed in one of the following three categories:

Level 1: Quoted prices (unadjusted) in active markets for identical assets and liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are either directly or indirectly observable for the asset or liability.

Level 3: Unobservable inputs for the asset or liability, including situations where there is little, if any, market activity for the asset or liability.

In some instances, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such instances, an instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

Market price is affected by a number of factors, including the type of instrument and the characteristics specific to the instrument. Instruments with readily available active quoted prices, or for which fair value can be measured from actively quoted prices, generally will have a higher degree of market price observability and a lesser degree of judgment used in measuring fair value. It is reasonably possible that changes in values of these instruments will occur in the near term and that such changes could materially affect amounts reported in the combined financial statements. Fair value standards also allow for the estimation of the fair value of investments in investment companies for which the investment does not have a readily determined fair value using the NAV per share or its equivalent.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 7. Investments and Fair Value Measurements (Continued)

The following table presents SOI's assets that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions as of December 31, 2022:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Fixed income:				
Other	\$ 2,427,137	\$ 2,427,137	\$ -	\$ -
Cash and cash equivalents	484,147	484,147	-	-
Investments in liquidation	22,744,000	22,744,000	-	-
	23,228,147	23,228,147	-	-
Equity:				
Large cap	1,266,460	1,266,460	-	-
International	672,951	672,951	-	-
Mid cap	828,319	828,319	-	-
Small cap	565,424	565,424	-	-
Large blend	526,368	526,368	-	-
Growth	187,690	187,690	-	-
Emerging markets	206,547	206,547	-	-
Real estate	91,718	91,718	-	-
	4,345,477	4,345,477	-	-
Beneficial interest measured at NAV or equivalent (a)	30,526,872	-	-	-
	\$ 60,527,633	\$ 30,000,761	\$ -	\$ -

- (a) In accordance with ASC Topic 820-10, the beneficial interest measured at fair value using the NAV per share (or its equivalent) partial expedient has not been classified in the fair value amounts presented in this table, and is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 7. Investments and Fair Value Measurements (Continued)

The following table presents SOI's assets that are measured at fair value on a recurring basis for each hierarchy level, including both current and noncurrent portions as of December 31, 2021:

	Fair Value Measurements at Reporting Date Using			
	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Fixed income:				
Other	\$ 2,062,060	\$ 2,062,060	\$ -	\$ -
Cash and cash equivalents	1,139,954	1,139,954	-	-
Equity:				
Large cap	1,521,869	1,521,869	-	-
International	704,838	704,838	-	-
Mid cap	1,052,746	1,052,746	-	-
Small cap	694,062	694,062	-	-
Large blend	653,476	653,476	-	-
Growth	188,066	188,066	-	-
Emerging markets	550,595	550,595	-	-
Real estate	129,003	129,003	-	-
	5,494,655	5,494,655	-	-
Beneficial interest measured at NAV or equivalent (a)	62,681,615	-	-	-
	<u>\$ 71,378,284</u>	<u>\$ 8,696,669</u>	<u>\$ -</u>	<u>\$ -</u>

(a) In accordance with ASC Topic 820-10, the beneficial interest measured at fair value using the NAV per share (or its equivalent) partial expedient has not been classified in the fair value amounts presented in this table, and is intended to permit reconciliation of the fair value hierarchy to the amounts presented in the combined statements of financial position.

The Trust has one alternative investment at December 31, 2022 and 2021, which calculates the fair value using the NAV per share or its equivalent. The fair value at December 31, 2022 and 2021, was \$53,270,872 and \$62,681,615, respectively. This investment can be redeemed at the end of each calendar year. Redemption of all or a portion of the investment requires a notice submitted by September 1 that precedes the applicable redemption date. As of December 31, 2022 and 2021, the Trust had submitted notice for a redemption of \$1,274,084 and \$1,944,184, respectively. The investment seeks to invest with a long-term horizon, seeking varied and non-traditional investment opportunities in an effort to provide a diversified, single-portfolio investment strategy.

Special Olympics, Inc. and Affiliates**Notes to Combined Financial Statements**

Note 7. Investments and Fair Value Measurements (Continued)

Fair value assets at December 31, 2022 and 2021, consist of the following:

	2022	2021
Investments restricted in perpetuity	\$ 5,505,630	\$ 6,072,434
Investments in liquidation	22,744,000	\$ -
Other investments	1,751,131	2,624,235
Total investments	30,000,761	8,696,669
Economic beneficial interest in Trust	30,526,872	62,681,615
Total fair value assets	<u>\$ 60,527,633</u>	<u>\$ 71,378,284</u>

Investment (loss) income for the years ended December 31, 2022 and 2021, consists of the following:

	2022	2021
Interest and dividends	\$ 191,350	\$ 166,731
Net unrealized and realized (losses) gains on investments	(1,457,638)	535,792
Investment management fees	(28,479)	(487,989)
Total investment (loss) income, net	<u>\$ (1,294,767)</u>	<u>\$ 214,534</u>

Net (depreciation) appreciation in Trust assets for the years ended December 31, 2022 and 2021, consists of the following:

	2022	2021
Net unrealized and realized (losses) gains on beneficial interest in Trust	<u>\$ (8,136,659)</u>	<u>\$ 8,517,223</u>
Total net (depreciation) appreciation in Trust assets	<u>\$ (8,136,659)</u>	<u>\$ 8,517,223</u>

Note 8. Designated Net Assets Without Donor Restrictions

Designated net assets without donor restrictions at December 31, 2022 and 2021, consist of the following:

	2022	2021
Trust	\$ 55,746,925	\$ 65,702,652
Board designated emergency relief funding	481,116	500,000
Total designated net assets without donor restrictions	<u>\$ 56,228,041</u>	<u>\$ 66,202,652</u>

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 8. Designated Net Assets Without Donor Restrictions (Continued)

The majority of the designated net assets without donor restrictions relate to the Trust. These assets were generated by royalties paid to SOI by a third-party for the use of SOI's rights to certain recordings and other intangible assets related to the A Very Special Christmas albums. The purpose of the Trust is to fund new SOI initiatives having a direct impact on persons with intellectual disabilities. The grants from the Trust may not be used for day-to-day overhead or general operational expenses of SOI. In 2021, SOI's Board of Directors approved designating \$500,000 toward the newly established Program Emergency Relief Fund (PERF) to assist SOI's accredited programs with the impacts of the coronavirus pandemic. Accredited programs may apply for financial assistance from the PERF beginning in 2022. The funds are to be used to reengage and recruit athletes, coaches and volunteers in the wake of the pandemic.

Note 9. Net Assets With Donor Restrictions

Net assets with donor restriction are available at December 31, 2022 and 2021, for the following purposes or periods:

	2022	2021
Program restrictions:		
Program assistance	\$ 10,169,998	\$ 12,064,439
Sports training and competitions	12,711,904	9,903,747
Public education and communications	785,469	839,594
Total program restrictions	23,667,371	22,807,780
Time restricted for periods after December 31	14,628,409	13,720,854
Donor-restricted endowment funds	7,488,317	6,106,469
Total net assets with donor restrictions	<u>\$ 45,784,097</u>	<u>\$ 42,635,103</u>

Net assets were released from donor restrictions during the years ended December 31, 2022 and 2021, by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	2022	2021
Satisfaction of program restrictions:		
Program assistance	\$ 13,876,155	\$ 10,442,114
Sports training and competitions	5,123,973	3,510,560
Public education and communications	54,125	186,780
Total satisfaction of program restrictions	19,054,253	14,139,454
Expiration of time restrictions	8,632,724	11,019,861
Total net assets released from restrictions	<u>\$ 27,686,977</u>	<u>\$ 25,159,315</u>

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 9. Net Assets With Donor Restrictions (Continued)

Endowment: Net assets with donor restrictions, in perpetuity, of \$7,505,630 and \$6,095,762 at December 31, 2022 and 2021, respectively, consists of the Special Olympics, Inc. internal Endowment Fund and the Global Unified Champion Schools Fund (established June 25, 2019). The internal Endowment Fund was established to generate income to finance special projects or unusual expenditures that will enhance the mission of SOI. The investment income earned is without donor restrictions. The Global Unified Champion Schools Fund was established as part of a multi-year commitment, with 30% of that commitment going toward the endowment fund. The first \$2,000,000 was contributed to the endowment in 2019. The investment income earned must be used in support of the Special Olympics Global Centre for Inclusion in Education (to be created by the donation and located in Abu Dhabi, United Arab Emirates and Unified Champion Schools around the world per donor-imposed restrictions).

SOI's endowment consists of amounts held in money market funds, fixed income funds and equities, with the objective of preserving the corpus of the endowment fund. As required by GAAP, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of relevant law: SOI interprets the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) of the District of Columbia as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary.

As a result of this interpretation, SOI classifies as net assets with donor restrictions: (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by SOI in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, SOI considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- 1) The duration and preservation of the fund
- 2) The purposes of SOI and the donor-restricted endowment fund
- 3) General economic conditions
- 4) The possible effect of inflation and deflation
- 5) The expected total return from income and the appreciation of investments
- 6) Other resources of SOI
- 7) The investment policies of SOI

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 9. Net Assets With Donor Restrictions (Continued)

The long-term return objective of the endowment fund is to preserve principal, while achieving a reasonable total rate of return that is sufficient to meet distribution requirements as defined in SOI's Endowed Funds Policy, and to provide for real growth in financial assets net of inflation and all expenses. The overall investment objective is to achieve a long-term annual rate of return that is at least 4.5% greater than the rate of inflation as measured by the U.S. Consumer Price Index. The portfolio will target a 60% equities and 40% fixed income allocation. Investments may be made across the full range of equity funds and fixed income investments defined under asset allocation definitions of the policy.

The agreement between SOI and the donor governs expenditures from endowment funds and, in the case of both the Internal Endowment Fund and the Global Unified Champion Schools Fund, the spending is based on positive returns and appreciation of the funds maintaining the corpus of the funds.

Endowment net assets with donor restrictions at December 31, 2022 and 2021, is as follows:

	2022	2021
Endowment net assets, beginning of year	\$ 6,106,469	\$ 3,652,512
Contributions	2,000,000	2,234,272
Investment (loss) return, net of fees	(618,152)	219,685
Endowment net assets, end of year	<u>\$ 7,488,317</u>	<u>\$ 6,106,469</u>

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the original value of the gift donated to the permanent endowment. Deficiencies of this nature are reported as net assets without donor restrictions. At December 31, 2022 and 2021, SOI had no funds with deficiencies.

Note 10. Leases

SOI leases real estate, including office space and equipment under operating lease agreements that have initial terms ranging from one to eight years. Some leases include one or more options to renew, generally at SOI's sole discretion, with renewal terms that can extend the lease term indefinitely. In addition, certain leases contain termination options where the rights to terminate are held by either SOI, the lessor or both parties. These options to extend or terminate a lease are included in the lease terms when it is reasonably certain that SOI will exercise that option. SOI's operating leases generally do not contain any material restrictive covenants or residual value guarantees. SOI also leases equipment under finance lease agreements with terms of five years and implied interest rate of 1.04%. SOI's finance leases do not contain any material restrictive covenants or residual value guarantees.

Operating lease cost is recognized on a straight-line basis over the lease term. Finance lease cost is recognized as a combination of the amortization expense for the ROU assets and interest expense for the outstanding lease liabilities, and results in a front-loaded expense pattern over the lease term.

The components of lease expense are as follows for the year ended December 31, 2022:

Operating lease cost	\$ 1,939,060
Finance lease cost—amortization of right-of-use assets	14,562
Finance lease cost—interest on lease liabilities	398
Total lease cost	<u>\$ 1,954,020</u>

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 10. Leases (Continued)

Total rent expense for operating leases was \$1,959,717 for the year ended December 31, 2021.

Supplemental cash flow information related to leases is as follows for the year ended December 31, 2022:

Cash paid for amounts included in measurement of lease liabilities:

Operating cash outflows—payments on operating leases	\$ 2,169,418
Operating cash outflows—payments on finance leases	398
Financing cash outflows—payments on finance leases	14,562

Right-of-use assets obtained in exchange for new lease obligations:

Operating leases	7,001,072
Finance leases	43,685

Supplemental combined statement of financial position information related to leases is as follows as of December 31, 2022:

Operating leases:

Operating lease ROU assets	<u>\$ 7,001,072</u>
Operating lease liabilities, current	\$ 314,061
Operating lease liabilities, noncurrent	6,743,961
Total operating lease liabilities	<u>\$ 7,058,022</u>

Finance leases:

Land, buildings and improvements	\$ -
Store fixtures and equipment	43,685
Accumulated depreciation	(14,562)
Finance lease ROU assets, net	<u>\$ 29,123</u>
Current maturities of finance lease liabilities	\$ 14,795
Finance lease liabilities, noncurrent	14,493
Total finance lease liabilities	<u>\$ 29,288</u>

Weighted-average remaining lease term:

Operating leases	5.76 years
Finance leases	2.17 years

Weighted-average discount rate:

Operating leases	3.51%
Finance leases	1.04%

SOI did not have any capital lease agreements included in property, plant and equipment in the accompanying combined statement of financial position as of December 31, 2021.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 10. Leases (Continued)

Future undiscounted cash flows for each of the next five years and thereafter, and a reconciliation to the lease liabilities recognized on the combined statement of financial position, are as follows as of December 31, 2022:

	Operating Leases	Finance Leases
Years ending December 31:		
2023	\$ 598,592	\$ 14,795
2024	1,427,055	14,795
2025	1,478,327	3,699
2026	1,433,923	-
2027	1,465,326	-
Thereafter	1,523,445	-
Total lease payments	7,926,668	33,289
Less imputed interest	(897,934)	(4,001)
Total present value of lease liabilities	<u>\$ 7,028,734</u>	<u>\$ 29,288</u>

Future minimum lease commitments, as determined under Topic 840, for all non-cancelable leases are as follows as of December 31, 2021:

Years ending December 31:	
2022	\$ 1,521,098
2023	926,705
2024	1,232,054
2025	1,309,126
2026	1,361,491
Thereafter	2,888,538
Total lease payments	<u>\$ 9,239,012</u>

Note 11. Allocation of Joint Costs

SOI conducts direct mail campaigns in the United States to raise funds, to increase public knowledge and awareness of Special Olympics, its mission and its activities and to recruit volunteers. In 2022 and 2021, SOI conducted direct mail activities that included requests for contributions, as well as program components. The cost of conducting those activities in 2022 and 2021 was \$27,416,123 and \$24,261,955, respectively. Costs of \$12,790,937 and \$10,820,832 were charged to fundraising expenses during 2022 and 2021, respectively. Costs of \$14,625,186 and \$13,441,123 were allocated to SOI's public education program during 2022 and 2021, respectively.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 12. Supporting Services

Management and general expenses include expenses that are not directly related to specific SOI programs. During 2022 and 2021, management and general expenses were \$5,391,098 and \$4,305,580, respectively. During 2022 and 2021, fundraising expenses for marketing and development and multistate fundraising projects were \$16,090,906 and \$14,537,702, respectively, which represented 10.93% and 10.42%, respectively, of the revenue resulting from fundraising, defined as direct mail contributions, individual and corporate contributions and sponsorships, contributed nonfinancial assets, federal grants, nonfederal grants, accreditation fees and other income in the combined statements of activities. Management and general expenses represent 3.66% and 3.08%, respectively, of revenues resulting from fundraising activities. Together, management and general and fundraising expenses represent approximately 14.5% and 13.5%, respectively, of revenues from fundraising activities.

Note 13. Credit Facilities

SOI has one line of credit arrangement for \$3,000,000 with a domestic bank that provides borrowings bearing interest at the prime rate, less 1%. The resulting rates at December 31, 2022 and 2021, were 6.50% and 2.25%, respectively. As of December 31, 2022 and 2021, Special Olympics had no borrowings against this line of credit arrangement.

Note 14. Paycheck Protection Program (PPP) Promissory Note

On May 1, 2020, SOI applied for and received a loan of \$3,549,950 pursuant to the PPP under Division A, Title I of the Coronavirus Aid, Relief and Economic Security Act (CARES Act), which was enacted March 27, 2020. The interest rate was 1.0% per annum, payable monthly commencing after a decision on forgiveness is received, if necessary. The loan was guaranteed by the Small Business Administration and was due to mature on May 3, 2022. There were no application or other fees associated with this loan. Qualifying uses of proceeds included payment of compensation and benefit costs in order to retain workers, and to make lease payments and utility payments. SOI used the entire loan amount for qualifying expenses. Under the terms of the loan, some or all of the loan may be forgiven if the funds are used for qualifying expenses as described in the CARES Act. The loan may be prepaid at any time without penalty. SOI applied for and received forgiveness on August 14, 2021. Under the guidance of ASC 958-605, SOI recognized non-exchange revenue (i.e., grant income) in other income once the loan agreement was considered unconditional (i.e., forgiveness of the loan received in 2021 and other barriers previously met). The outstanding balance on the loan at December 31, 2021, was \$0.

Note 15. Employee Benefits

SOI participates in both 403(b) and 401(k) defined contribution retirement plans which are available for the benefit of all full-time employees of SOI. In addition, employees may also take advantage of a tax-deferred annuity plan sponsored by SOI. In accordance with the 401(k) plan agreement, SOI makes contributions to the plan which are determined based on a percentage of the participating employee's salary and the amount of an employee's elective contributions. SOI has a 403(b) defined contribution pension plan that covers substantially all U.S. employees. Pension expense under both plans was \$765,977 and \$693,277 for the years ended December 31, 2022 and 2021, respectively.

Note 16. Commitments and Contingencies

Federal awards: SOI participates in a number of federal grant programs which are subject to financial and compliance audits. Accordingly, SOI's compliance with applicable grant requirements may be determined at some future date. The amount, if any, of expenditures which may be disallowed by the granting agencies cannot be determined at this time, although management expects such amounts, if any, to be immaterial.

Special Olympics, Inc. and Affiliates

Notes to Combined Financial Statements

Note 16. Commitments and Contingencies (Continued)

Legal: In the normal course of business, SOI may be involved in various claims and legal actions. Management believes the outcome of such legal actions will not have a significant adverse effect on SOI's financial position, results of operations or cash flows.

Supplemental Information

Special Olympics, Inc. and Affiliates

Combining Statement of Financial Position December 31, 2022

	Special Olympics, Inc.	SO Europe Eurasia Foundation	Special Olympics Asia Pacific, Ltd	Special Olympics Community Services, Ltd	Special Olympics Entertainment Corporation	Elimination Entries	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 50,507,504	\$ 853,462	\$ 3,376,526	\$ -	\$ 785,469	\$ -	\$ 55,522,961
Contributions receivable	9,763,940	-	-	-	-	-	9,763,940
Program and other receivables, net	18,118,951	248,821	22,000	-	-	(4,980,344)	13,409,428
Investments in liquidation	22,744,000	-	-	-	-	-	22,744,000
Prepaid expenses	3,203,656	908	10,708	-	-	-	3,215,272
Other assets	361,372	-	-	-	-	-	361,372
Total current assets	104,699,423	1,103,191	3,409,234	-	785,469	(4,980,344)	105,016,973
Noncurrent assets:							
Permanently restricted investments	5,505,630	-	-	-	-	-	5,505,630
Other investments	1,751,131	-	-	-	-	-	1,751,131
Net assets of combined entities	273,733	-	-	-	-	(273,733)	-
Economic beneficial interest in Christmas Records Trust	30,526,872	-	-	-	-	-	30,526,872
Long-term contributions receivable, net	2,477,030	-	-	-	-	-	2,477,030
Operating right-of-use asset, net	7,001,072	-	-	-	-	-	7,001,072
Property and equipment, net	2,956,481	-	111,763	-	-	-	3,068,244
Other assets	879,714	-	-	-	-	-	879,714
Total noncurrent assets	51,371,663	-	111,763	-	-	(273,733)	51,209,693
Total assets	\$ 156,071,086	\$ 1,103,191	\$ 3,520,997	\$ -	\$ 785,469	\$ (5,254,077)	\$ 156,226,666
Liabilities and Net Assets							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 11,974,328	\$ 867,717	\$ 46,942	\$ 3,000	\$ -	\$ -	\$ 12,891,987
Lease liability, net	275,057	-	39,004	-	-	-	314,061
Due to Special Olympics, Inc.	-	198,693	2,367,599	12,042	-	(2,578,334)	-
Due to Christmas Records Trust	2,402,010	-	-	-	-	(2,402,010)	-
Grants and awards payable to affiliates	140,000	-	-	-	-	-	140,000
Deferred revenue and refundable advances	8,021,998	-	-	-	-	-	8,021,998
Total current liabilities	22,813,393	1,066,410	2,453,545	15,042	-	(4,980,344)	21,368,046
Non-current liabilities:							
Lease liability, net	6,706,948	-	37,013	-	-	-	6,743,961
Total non-current liabilities	6,706,948	-	37,013	-	-	-	6,743,961
Total liabilities	29,520,341	1,066,410	2,490,558	15,042	-	(4,980,344)	28,112,007
Net assets:							
Without donor restrictions:							
Undesignated	25,346,076	36,781	1,008,439	(15,042)	-	(273,733)	26,102,521
Designated	56,228,041	-	-	-	-	-	56,228,041
Total net assets without donor restrictions	81,574,117	36,781	1,008,439	(15,042)	-	(273,733)	82,330,562
With donor restrictions	44,976,628	-	22,000	-	785,469	-	45,784,097
Total net assets	126,550,745	36,781	1,030,439	(15,042)	785,469	(273,733)	128,114,659
Total liabilities and net assets	\$ 156,071,086	\$ 1,103,191	\$ 3,520,997	\$ -	\$ 785,469	\$ (5,254,077)	\$ 156,226,666

Special Olympics, Inc. and Affiliates

Combining Statement of Financial Position December 31, 2021

	Special Olympics, Inc.	SO Europe Eurasia Foundation	Special Olympics Asia Pacific, Ltd	Special Olympics Community Services, Ltd	Special Olympics Entertainment Corporation	Elimination Entries	Total
Assets							
Current assets:							
Cash and cash equivalents	\$ 46,721,648	\$ 398,229	\$ 3,452,507	\$ -	\$ 839,594	\$ -	\$ 51,411,978
Contributions receivable	7,183,903	-	-	-	-	-	7,183,903
Program and other receivables, net	17,758,204	74,826	3,607	-	-	(5,662,959)	12,173,678
Prepaid expenses	1,916,613	-	65,930	-	-	-	1,982,543
Other assets	392,487	-	-	-	-	-	392,487
Total current assets	73,972,855	473,055	3,522,044	-	839,594	(5,662,959)	73,144,589
Noncurrent assets:							
Permanently restricted investments	6,072,434	-	-	-	-	-	6,072,434
Other investments	2,624,235	-	-	-	-	-	2,624,235
Net assets of combined entities	273,733	-	-	-	-	(273,733)	-
Economic beneficial interest in							
Christmas Records Trust	62,681,615	-	-	-	-	-	62,681,615
Long-term contributions							
receivable, net	6,394,827	-	-	-	-	-	6,394,827
Property and equipment, net	4,364,240	-	7,230	-	-	-	4,371,470
Other assets	968,332	-	-	-	-	-	968,332
Total noncurrent assets	83,379,416	-	7,230	-	-	(273,733)	83,112,913
Total assets	\$ 157,352,271	\$ 473,055	\$ 3,529,274	\$ -	\$ 839,594	\$ (5,936,692)	\$ 156,257,502
Liabilities and Net Assets							
Current liabilities:							
Accounts payable and accrued liabilities	\$ 8,085,078	\$ 237,151	\$ 84,712	\$ 3,000	\$ -	\$ -	\$ 8,409,941
Due to Special Olympics, Inc.	-	197,516	2,458,026	4,880	-	(2,660,422)	-
Due to Christmas Records Trust	3,002,537	-	-	-	-	(3,002,537)	-
Grants and awards payable							
to affiliates	6,682,101	-	-	-	-	-	6,682,101
Deferred revenue and refundable advances	7,431,060	-	-	-	-	-	7,431,060
Deferred rent	216,112	-	-	-	-	-	216,112
Total liabilities	25,416,888	434,667	2,542,738	7,880	-	(5,662,959)	22,739,214
Net assets:							
Without donor restrictions:							
Undesignated	23,978,982	29,128	954,036	(7,880)	-	(273,733)	24,680,533
Designated	66,202,652	-	-	-	-	-	66,202,652
Total net assets without donor restrictions	90,181,634	29,128	954,036	(7,880)	-	(273,733)	90,883,185
With donor restrictions	41,753,749	9,260	32,500	-	839,594	-	42,635,103
Total net assets	131,935,383	38,388	986,536	(7,880)	839,594	(273,733)	133,518,288
Total liabilities and net assets	\$ 157,352,271	\$ 473,055	\$ 3,529,274	\$ -	\$ 839,594	\$ (5,936,692)	\$ 156,257,502

Special Olympics, Inc. and Affiliates

Combining Statement of Activities Year Ended December 31, 2022

	Special Olympics, Inc.	SO Europe Eurasia Foundation	Special Olympics Asia Pacific, Ltd	Special Olympics Community Services, Ltd	Special Olympics Entertainment Corporation	Elimination Entries	Total
Revenues, gains and other support:							
Direct mail contributions	\$ 53,903,803	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,903,803
Individual and corporate contributions and sponsorships	39,684,167	282,659	1,133,064	-	-	-	41,099,890
Contributed goods and services	7,943,661	-	-	-	-	-	7,943,661
Federal grants	39,195,047	-	-	-	-	-	39,195,047
Nonfederal grants	-	45,599	-	-	-	(45,599)	-
Accreditation fees	4,251,797	-	-	-	-	-	4,251,797
Royalty income	1,355,522	-	-	-	-	-	1,355,522
Depreciation in Christmas Records Trust assets, net	(8,136,659)	-	-	-	-	-	(8,136,659)
Other investment income (loss), net	1,659,659	-	-	-	-	(2,954,426)	(1,294,767)
Other income	772,561	-	228,603	-	-	(118,978)	882,186
Total revenues, gains and other support	140,629,558	328,258	1,361,667	-	-	(3,119,003)	139,200,480
Expenses:							
Program assistance	73,515,790	329,864	1,201,436	7,162	-	(3,119,003)	71,935,249
Public education and communication	42,772,378	-	-	-	52,000	-	42,824,378
Sports training and competitions	8,362,478	-	-	-	-	-	8,362,478
Fundraising	15,974,577	-	116,329	-	-	-	16,090,906
Management and general	5,388,973	-	-	-	2,125	-	5,391,098
Total expenses	146,014,196	329,864	1,317,765	7,162	54,125	(3,119,003)	144,604,109
Changes in net assets	(5,384,638)	(1,606)	43,902	(7,162)	(54,125)	-	(5,403,629)
Net assets:							
Beginning	131,935,383	38,388	986,536	(7,880)	839,594	(273,733)	133,518,288
Ending	\$ 126,550,745	\$ 36,782	\$ 1,030,438	\$ (15,042)	\$ 785,469	\$ (273,733)	\$ 128,114,659

Special Olympics, Inc. and Affiliates

Combining Statement of Activities Year Ended December 31, 2021

	Special Olympics, Inc.	SO Europe Eurasia Foundation	Special Olympics Asia Pacific, Ltd	Special Olympics Community Services, Ltd	Special Olympics Entertainment Corporation	Elimination Entries	Total
Revenues, gains and other support:							
Direct mail contributions	\$ 56,091,518	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56,091,518
Individual and corporate contributions and sponsorships	36,008,254	362,382	1,428,900	-	-	-	37,799,536
Contributed goods and services	6,256,764	-	-	-	-	-	6,256,764
Federal grants	32,246,398	-	-	-	-	-	32,246,398
Nonfederal grants	-	50,551	-	-	-	(50,551)	-
Accreditation fees	3,266,273	-	-	-	-	-	3,266,273
Royalty income	1,230,645	-	-	-	-	-	1,230,645
Appreciation in Christmas Records Trust assets, net	8,517,223	-	-	-	-	-	8,517,223
Other investment income, net	2,902,441	-	-	-	-	(2,687,907)	214,534
Other income	3,918,609	-	201,963	-	-	(199,610)	3,920,962
Total revenues, gains and other support	150,438,125	412,933	1,630,863	-	-	(2,938,068)	149,543,853
Expenses:							
Program assistance	67,397,531	411,653	1,256,397	7,880	-	(2,938,068)	66,135,393
Public education and communication	36,201,672	-	-	-	186,780	-	36,388,452
Sports training and competitions	5,616,483	-	-	-	-	-	5,616,483
Fundraising	14,330,237	-	207,465	-	-	-	14,537,702
Management and general	4,305,580	-	-	-	-	-	4,305,580
Total expenses	127,851,503	411,653	1,463,862	7,880	186,780	(2,938,068)	126,983,610
Changes in net assets	22,586,622	1,280	167,001	(7,880)	(186,780)	-	22,560,243
Net assets:							
Beginning	109,348,761	37,108	819,535	-	1,026,374	(273,733)	110,958,045
Ending	\$ 131,935,383	\$ 38,388	\$ 986,536	\$ (7,880)	\$ 839,594	\$ (273,733)	\$ 133,518,288